

June 4, 2003

IN RE: DOCKET NO. 2002-416-C – Proceeding for the establishment of a requirement that non-facilities based CLEC's providing prepaid local telephone service be required to post an appropriate Surety Bond.

^{R.}
COPY OF TESTIMONY OF ADAM KANE ON BEHALF OF ASPIRE
TELECOM, INC. HAS BEEN DISTRIBUTED TO THE FOLLOWING:

J. McDaniel

Legal

Exec. Asst.

Exec. Director

Manager, Utils Dept.

Audit (1)

Commissioners (7)

pao

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LAW OFFICES
NELSON MULLINS RILEY & SCARBOROUGH, L.L.P.
A REGISTERED LIMITED LIABILITY PARTNERSHIP

D. LARRY KRISTINIK
(803) 376-9531
INTERNET ADDRESS: DLK@NMRS.COM

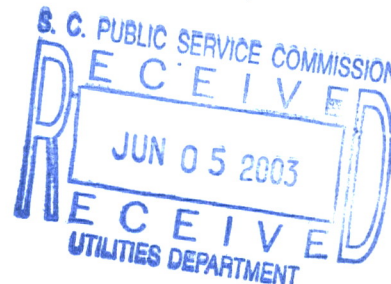
KEENAN BUILDING, THIRD FLOOR
1330 LADY STREET
Post Office Box 11070 (29211)
COLUMBIA, SOUTH CAROLINA 29201
TELEPHONE (803) 799-2000
FACSIMILE (803) 256-7500
DIRECT FACSIMILE (803) 255-9077
WWW.NMRS.COM

OTHER OFFICES:
ATLANTA, GEORGIA
CHARLESTON, SOUTH CAROLINA
CHARLOTTE, NORTH CAROLINA
GREENVILLE, SOUTH CAROLINA
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June 4, 2003

VIA HAND DELIVERY

Mr. Gary Walsh
Executive Director
South Carolina Public Service Commission
Post Office Drawer 11649
Columbia, South Carolina 29211



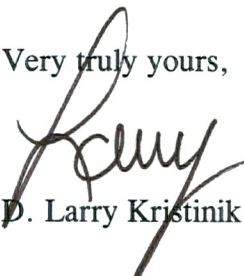
Re: Generic Proceeding to Review Requirements for Competitive Local Exchange Carriers
Providing Prepaid Local Exchange
Docket No. 2002-416-C
Our File No. 18289A/00001

Dear Mr. Walsh:

Enclosed for filing please find an original and twenty-six (26) copies of the Prefiled Testimony of R. Adam Kane. Please return one clocked in copy with the courier. Thank you for your assistance, and please contact us should you have any questions regarding this filing.

By copy of this letter to counsel for all other parties of record, we are hereby serving them with a copy of same.

Very truly yours,


D. Larry Kristinik

DLK:dlk
Enclosures

cc: Patrick W. Turner, Esquire
Faye A. Flowers, Esquire
Elliott F. Elam, Esquire
Margaret M. Fox, Esquire
Stan J. Bugner, Esquire

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**BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

DOCKET NO. 2002-416-C

IN RE:

Generic Proceeding to Review
Requirements for Competitive Local
Exchange Carriers Providing Prepaid
Local Exchange

**PREFILED TESTIMONY OF
R. ADAM KANE**

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is R. Adam Kane and my business address is 1 West Crabapple Lane,
Asheville, North Carolina 28804.

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY ARE YOU
EMPLOYED?**

A. I am employed by Aspire Telecom, Inc. and serve as its President.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. To explain the need for the Commission to adopt certain changes to its regulations to
allow more flexibility with respect to late fees and notice of suspension of service with
respect to prepaid local service.

Q. WHAT IS *ASPIRE*?

A. *Aspire* is a non-dominant telecommunications company that has been providing
telecommunications service to residential customers since April, 2000. *Aspire* is
incorporated in North Carolina and is headquartered in Asheville as is its Customer
Service Department.

RETURN DATE: *OK*
SERVICE: *OK*

1 Q. IS *ASPIRE* AUTHORIZED TO PROVIDE TELECOMMUNICATIONS
2 SERVICES IN SOUTH CAROLINA?

3 A. Yes. By Order dated October 10, 2002, *Aspire* received a certificate from the
4 Commission to provide resold local exchange and exchange access telecommunications
5 services in South Carolina. *Aspire* is also certificated to serve customers in North
6 Carolina.

7 Q. TO WHOM DOES *ASPIRE* PROVIDE ITS PREPAID SERVICES?

8 A. *Aspire* is not in the business of providing credit to customers and, therefore, provides
9 services exclusively on a prepaid basis. Because *Aspire* has limited its financial risk in
10 this manner, it can provide services to customers who have poor payment histories or
11 encounter other barriers to service, but who are in need of easily accessible local
12 telecommunications services. *Aspire* offers an additional opportunity for quality
13 telecommunications services to a segment of the consumer population that otherwise has
14 limited choices.

15 Q. HOW DOES *ASPIRE* CHARGE FOR ITS SERVICES?

16 A. *Aspire* provides its services exclusively on a prepaid basis. Customers pay a flat rate in
17 advance for each month of service.

18 Q. WHAT IS *ASPIRE*'S PAYMENT POLICY FOR ITS NORTH CAROLINA
19 CUSTOMERS?

20 A. *Aspire*'s Payment Policy for its North Carolina customers states, "If the Customer
21 wishes to continue the Service after the first month, the Customer must pay the
22 Monthly Service Fee each month. The Customer's due date will be the same day each
23 month. A reminder notice will be mailed to the customer approximately 14 days prior

1 to their due date. Terms of payment and due dates will be clearly shown on this notice.
2 If payment is not received by the Company or one of its Authorized Agents by the due
3 date a \$10.00 late fee will be assessed. If payment in full, including the \$10.00 late
4 fee, is not received within 7 days after the due date Service will be suspended. Once
5 suspended a \$25 reconnect fee will be assessed. Once suspended, the customer has 5
6 days to make payment in full including the \$25 restoration fee or they will be
7 disconnected. If payment in full is not received before the disconnect date, service will
8 be discontinued.”

9 **Q. DOES *ASPIRE* WISH TO APPLY THIS POLICY WITH RESPECT TO ITS**
10 **SOUTH CAROLINA CUSTOMERS, IF ALLOWED BY THE COMMISSION?**

11 **A. Yes.**

12 **Q. IS THE \$10 LATE FEE CHARGED IN ADDITION TO THE \$25**
13 **RESTORATION FEE?**

14 **A. No.** If service is suspended and the customer wishes to continue service, the customer
15 is charged the \$25 restoration fee in lieu of the \$10 late fee.

16 **Q. WHAT ARE THE ADVANTAGES OF THIS PAYMENT POLICY?**

17 **A.** Because *Aspire* provides services on a resold basis, suspending and disconnecting
18 service requires *Aspire* to contact and pay fees to incumbent carriers and then pass these
19 fees on to the customer. *Aspire's* payment policy provides the customer with a seven
20 (7) day grace period during which service will continue beyond the one month of
21 service previously purchased. If, during the grace period, the customer chooses to
22 purchase another month of service and pay the late fee, service will continue

1 uninterrupted and fees to incumbent carriers for suspension or disconnection of service
2 would be avoided.

3 **Q. HOW DOES *ASPIRE* PROVIDE NOTICE TO ITS NORTH CAROLINA**
4 **CUSTOMERS THAT IT IS TIME TO MAKE PAYMENT FOR THE NEXT**
5 **MONTH OF SERVICE?**

6 A. *Aspire* sends a reminder notice to its North Carolina customers approximately fourteen
7 (14) days before the end of the month of service previously purchased. This notice
8 informs the customer that, if payment for the next month of service is not made before
9 the expiration of the previous month's service, a \$10 late fee will be assessed and
10 service will be suspended if payment is not received within the seven (7) day grace
11 period.

12 **Q. IS *ASPIRE*'S NORTH CAROLINA PAYMENT POLICY CONSISTENT WITH**
13 **THE NOTICE REQUIREMENTS IN THE EXISTING SOUTH CAROLINA PSC**
14 **REGULATION 103-633?**

15 A. Yes. Because the services are provided on a prepaid basis, the customer has already
16 paid for the service being provided and, therefore, cannot be late with respect to such
17 payment. Accordingly, a typical late notice is not required. To continue service into
18 the next month, the customer must make an advance payment to *Aspire* prior to the
19 expiration of the previous month's service. The customer has no expectation of
20 receiving another month of service without paying for it in advance. *Aspire* provides
21 notice to the customer that service will be suspended or discontinued by way of a
22 reminder notice sent approximately fourteen (14) days prior to the expiration of the

1 prepaid month of service. This reminder notice informs the customer that service will
2 be suspended if the fee for the next month's service is not timely paid.

3 **Q. WHAT IS THE DISADVANTAGE OF SENDING OUT A SECOND NOTICE**
4 **INFORMING THE CUSTOMERS OF THE SUSPENSION OF SERVICE?**

5 A. As an initial matter, the customers have no expectation that their service will continue
6 indefinitely without prepayment. The disadvantage is that requiring a second notice
7 nearly doubles the labor and postage expense with respect to customer mailings, and
8 such expense has to be passed on to customers, leading to higher pricing for services
9 and the diminishing of competitiveness in the market.

10 **Q. WHAT HAS BEEN *ASPIRE'S* EXPERIENCE WITH ITS NORTH CAROLINA**
11 **PAYMENT POLICY?**

12 A. The majority of *Aspire's* North Carolina customers who failed to pay for their next
13 month of service in a timely manner have taken advantage of the grace period by
14 communicating with *Aspire* during the grace period to make payment arrangements to
15 continue service without interruption and without incurring restoration or reconnection
16 fees.

17 **Q. WHY IS *ASPIRE'S* PAYMENT POLICY DIFFERENT FROM THE POLICIES**
18 **OF NON-PREPAID CLECS?**

19 A. *Aspire* provides resold services and, therefore, must purchase its services from
20 incumbent carriers. When *Aspire* resells these services, it does so exclusively on a
21 prepaid basis, thus avoiding the need to extend credit to customers as many traditional
22 CLECs do. *Aspire's* business plan does not allow for it to undertake the risk of
23 extending credit when it is purchasing service from incumbent carriers, especially when

1 most of its anticipated customers have poor credit habits. *Aspire's* payment policy
2 provides expanded flexibility to customers through the seven (7) day grace period by
3 providing additional time to customers and often avoiding the substantially more
4 expensive restoration or reconnection fees.

5 **Q. DOES ASPIRE RECOMMEND A CHANGE IN THE AMOUNT OF LATE FEE**
6 **PERMITTED TO BE CHARGED IN SOUTH CAROLINA?**

7 A. Yes. *Aspire* requests a change to Regulation 103-622.2 as it pertains to late fees. In
8 lieu of the regulation's stated late fees of 1½%, *Aspire* recommends that authorization
9 be granted to assess a \$10 late fee. The purpose of a \$10 late fee is to allow prepaid
10 CLECs like *Aspire* to provide to customers a grace period in which their service will
11 continue after their prepaid service has expired. Because *Aspire* is a prepaid provider
12 of resold services, it is not in the business of providing credit to customers.
13 Accordingly, without the larger late fee, *Aspire's* business plan does not permit it to
14 purchase additional service days from the incumbent carrier that would allow for the
15 grace period. Additionally, in the absence of the ability to assess a \$10 late fee, *Aspire*
16 would experience financial hardship because it would be put in a position of providing
17 service to the customer during the grace period, but, under a 1½% late fee, would be
18 limited to less than \$1 reimbursement from the customer for these seven additional days
19 of service purchased from incumbent carriers. *Aspire's* policy and proposed late fee
20 structure allow it to maintain for subscribers the substantial benefit of providing
21 continuous service to those who are unable to make a renewal payment exactly on time
22 and flexibility of payment that avoids higher fees for restoration of service. *Aspire* is
23 authorized and has successfully employed a \$10 late fee in its North Carolina market.

1 Q. WOULD THE \$10 LATE FEE RESULT IN A LARGE SURPLUS FOR *ASPIRE*
2 IN COMPARISON TO THE COST OF UNREIMBURSED GRACE PERIOD
3 DAYS?

4 A. No. Based on *Aspire's* experience in North Carolina, the \$10 late fee allows *Aspire* to
5 about break even when compared with the unreimbursed portion of the cost of
6 purchasing grace period days from incumbent LECs and the cost of disconnecting those
7 late customers that ultimately do not pay to continue service. For example, in July of
8 2002, which was an average month, *Aspire* purchased from incumbent LECs roughly
9 9,500 days of service that were not prepaid. Of these 9,500 days of service purchased,
10 *Aspire* did not receive compensation for 3,300 days as a result of a number of
11 customers choosing not to pay and who allowed their service to be suspended and later
12 disconnected. The cost of these 3,300 days was approximately \$3,200. Combined with
13 approximately \$3,100 of additional cost to suspend and later disconnect these late
14 customers, *Aspire* incurred a total of about \$6,300 in costs compared to total late fees
15 collected in the same month of about \$6,600, leaving a small surplus of only \$300.
16 Although late fees covered costs in July, *Aspire's* risk exposure was over \$9,000 since
17 there was no guarantee that any of the late customers would pay to continue service into
18 the next month. This risk exposure is a reoccurring business issue that *Aspire* will
19 likely be subjected to every month.

20 Q. WHAT ARE THE BENEFITS OF *ASPIRE'S* LATE FEE PROPOSAL?

21 A. *Aspire* has enjoyed relatively low customer turnover as a result of the flexibility offered
22 by the \$10 late fee and seven-day grace period. Many customers take advantage of the
23 grace period to work out payment terms for their next month of service. Overall, the

1 lack of a rigid payment deadline results in greater customer satisfaction, lower churn,
2 and less money spent attracting new customers. It also allows customers to avoid the
3 substantially higher suspension and reconnection fees. Importantly, the reduced
4 customer turnover and the recovery of amounts paid for grace period days allows
5 *Aspire* to cover lost "late day" incumbent LEC fees and pass these savings on to
6 customers by keeping its monthly service fee at a level competitive with other prepaid
7 providers.

8 **Q. WHAT WOULD BE THE DISADVANTAGE OF MAKING AN ADJUSTMENT**
9 **IN THE BILLING CYCLE TO PROVIDE A GRACE PERIOD?**

10 A. One proposal I have heard in the past is to adjust *Aspire's* billing cycle in an attempt to
11 provide a grace period for customers while avoiding the risk to *Aspire* of purchasing
12 additional days of service from incumbent LECs for which it would not be reimbursed.
13 Under such a proposal, the due date for the payment for the next 30 days of service
14 would be moved to the 20th day of the current 30-day service period, instead of the
15 30th day. Purportedly, there would be no need for *Aspire* to purchase additional days
16 of service to provide for the grace period since the grace period would be built into the
17 service days already paid for by the customer. This proposal, however, has two
18 negative effects on customers. First, it requires them to pay for the next 30-day service
19 period 10 days in advance. Second, and more importantly, it requires the immediate
20 termination of service for all customers that fail to pay within the grace period with no
21 flexibility to further extend the grace period for customers that have unique financial
22 problems and who require more time.

1 Q. PLEASE EXPLAIN THE NEED FOR FLEXIBILITY FOR THE MAKING OF
2 LATE PAYMENTS BEYOND THE ESTABLISHED GRACE PERIOD?

3 A. *Aspire*, as a prepaid provider, primarily serves a narrow segment of the market made
4 up of customers that have poor payment habits or have experienced other barriers to
5 receiving service from traditional carriers. It has been *Aspire's* experience that many of
6 its customers cannot pay within the established grace period and require special
7 payment arrangements because of their individual financial situations. For example,
8 many of *Aspire's* customers have no access to credit and the flexibility it provides and,
9 therefore, experience cash flow problems from time to time. The \$10 late fee allows
10 *Aspire* to afford the purchase of additional days of service for such customers so that
11 their service can continue uninterrupted while they have additional time to make their
12 payments. Some of these customers will need more than the 7-day grace period.
13 Under the other proposal discussed above, there would be no \$10 late fee, and no
14 additional days of service provided for any late customer, regardless of their individual
15 financial situation. The service of every customer who had not paid within the
16 established grace period would be immediately terminated with no ability to provide a
17 few extra days of service beyond such grace period while the customers obtain funds
18 for their next payment. The result of this to the customer would be even higher charges
19 for reconnection with *Aspire* or activation with another carrier—both of which would be
20 more than twice the \$10 late fee. The result to *Aspire* would be a higher disconnection
21 rate and the expenditure of additional time and resources to locate new customers, all of
22 which would diminish its competitiveness in the market and increase prices for all
23 customers.

1 Q. WHY IS *ASPIRE* SEEKING THE ABOVE CHANGES TO THE
2 REGULATIONS?

3 A. *Aspire's* experience with over a thousand customers in its North Carolina market show
4 that these innovations work. *Aspire* has had the flexibility to work with its customers
5 and tailor payment arrangements to the customers' individual financial situations, which
6 has led to fewer disconnections and greater customer satisfaction. *Aspire* has found that
7 its customers highly value this flexibility. Moreover, these innovations have allowed
8 *Aspire* to keep costs down in North Carolina, and thereby maintain its pricing for
9 services at competitive levels. Because of this, affordable and quality
10 telecommunications services have been provided to a narrow segment of customers that
11 otherwise could not obtain such services.

12 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

13 A. Yes.

CERTIFICATE OF SERVICE

I, the undersigned Administrative Assistant, of the law offices of Nelson Mullins Riley & Scarborough, L.L.P., attorneys for R. Adam Kane, do hereby certify that I have served all counsel in this action with a copy of the pleading(s) hereinbelow specified by mailing a copy of the same by United States Mail, postage prepaid, to the following address(es):

Pleadings:

Prefiled Testimony of R. Adam Kane

Counsel Served:

Patrick W. Turner, Esquire
BellSouth Telecommunications, Inc.
Legal Department
1600 Williams Street, Suite 5200
Columbia, SC 29201

Faye A. Flowers, Esquire
Parker Poe Adams & Bernstein L.L.P.
P. O. Box 1509
Columbia, SC 29202-1509

Elliott F. Elam, Jr., Esquire
S.C. Department of Consumer Affairs
Post Office Box 5757
Columbia, SC 29250

Margaret M. Fox, Esquire
McNair Law Firm, P.A.
Post Office Box 11390
Columbia, SC 29211

Stan J. Bugner, Esquire
1301 Gervais Street, Suite 825
Columbia, SC 29201



Kim R. Smith
Administrative Assistant

June 4, 2003